

**ITEL**  
**CORPORATION**  
**RAIL DIVISION**

10034  
RECORDATION NO. .... Filed 1425

JAN 19 1979 -2 10 PM  
INTERSTATE COMMERCE COMMISSION

January 16, 1979

Hon. H.G. Homme, Secretary  
Interstate Commerce Commission  
Washington, D.C. 20423

Dear Sir:

Enclosed for filing with and recording by the Interstate Commerce Commission are one original, two counterparts and three photocopies of a Lease Agreement dated as of July 10, 1978 between ITEL Corporation, acting through its Rail Division, Two Embarcadero Center, San Francisco, California 94111 and The Arcata and Mad River Rail Road Company, Blue Lake, California 95525, covering the following railroad equipment:

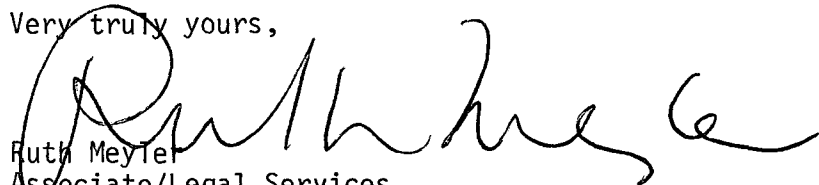
200 70-ton, 50'6", Plate C, nailable steel floor, end of car cushioning  
Boxcars bearing the identifying numbers AMR 1000 - AMR 1199 both inclusive.

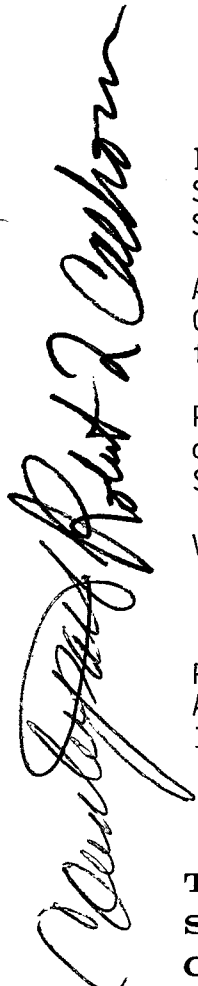
Identifying marks on all of the foregoing equipment: The words "OWNERSHIP SUBJECT TO A SECURITY AGREEMENT FILED UNDER THE INTERSTATE COMMERCE COMMISSION", printed on each side of each unit.

Also enclosed is our check in the amount of \$50, payable to the Interstate Commerce Commission, being the prescribed fee for filing and recording the foregoing document.

Please return all additional copies of the enclosed counterparts not required by the Interstate Commerce Commission to David Schwartz, Esq., of Sullivan and Worcester, who will be delivering this letter on our behalf.

Very truly yours,

  
Ruth Meyer  
Associate/Legal Services  
ITel Transportation Services Group

  
**TWO EMBARCADERO CENTER**  
**SAN FRANCISCO**  
**CALIFORNIA 94111**  
**(415) 955-9090**  
**TELEX 34-234**

**Interstate Commerce Commission**  
**Washington, D.C. 20423**

**1/19/79**

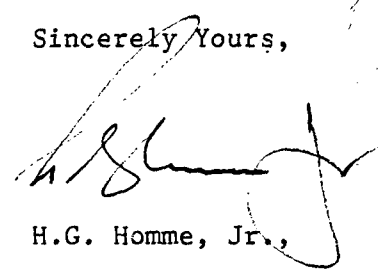
OFFICE OF THE SECRETARY

**Ruth Meyler**  
**Itel Corporation**  
**Two Embarcadero Center**  
**San Francisco, Calif. 94111**

Dear **Sir:**

The enclosed document(s) was recorded pursuant to the  
provisions of Section 20(c) of the Interstate Commerce Act,  
49 U.S.C. 20(c), on **1/19/79** at **2:10pm**  
and assigned recordation number(s) **10034**

Sincerely Yours,

  
**H.G. Homme, Jr.,**  
**Secretary**

Enclosure(s)

SE-30-T  
(2/78)

**ITEL  
CORPORATION  
RAIL DIVISION**

RECORDATION NO. 10034 Filed 1425  
JAN 19 1979 -2 10 PM  
INTERSTATE COMMERCE COMMISSION

**LEASE AGREEMENT**

THIS LEASE AGREEMENT, made as of this 10th day of July, 1978, between ITEL CORPORATION, RAIL DIVISION, a Delaware corporation, Two Embarcadero Center, San Francisco, California 94111 ("Itel Rail"), as Lessor, and The Arcata and Mad River Rail Road Company, a California corporation ("Lessee"), as Lessee.

**1. Scope of Agreement**

A. Itel Rail agrees to lease to Lessee, and Lessee agrees to lease from Itel Rail, freight cars as set forth in any lease schedules executed by the parties concurrently herewith or hereafter and made a part of this Agreement. The word "Schedule" as used herein includes the Schedule or Schedules executed herewith and any additional Schedules and amendments thereto, each of which when signed by both parties shall be a part of this Agreement. The scheduled items of equipment are hereinafter called collectively the "Cars."

B. It is the intent of the parties to this Agreement that Itel Rail shall at all times be and remain the lessor of all Cars. Lessee agrees that it will at no time take any action or file any document which is inconsistent with the foregoing intent and that it will take such action and execute such documents as may be necessary to accomplish this intent.

**2. Term**

A. This Agreement shall remain in full force until it shall have been terminated as to all of the Cars as provided herein. The term of lease with respect to all of the Cars described on each Schedule shall be for fifteen (15) years (the "Initial Lease Term") commencing upon the date when all Cars on such Schedule have been delivered as set forth in Section 3A hereof.

B. If this Agreement has not been earlier terminated and no default has occurred and is continuing, it shall automatically be extended for not more than five consecutive periods of twelve months each (the "Extended Lease Term") with respect to all of the Cars described on each Schedule, provided, however, that Itel Rail or Lessee may terminate this Agreement on or after the Initial Lease Term as to all, but not fewer than all, of the Cars on any such Schedule by written notice delivered to the other not less than twelve months prior to the end of the Initial Lease Term or any Extended Lease Term.

**3. Supply Provisions**

A. Itel Rail will inspect each of the Cars tendered by the manufacturer for delivery to Lessee. Prior to such inspection, however, Lessee shall confirm in writing to Itel Rail that the sample Car which will be made available for Lessee's inspection prior to the commencement of deliveries conforms to the specifications of the equipment agreed to by Lessee. Upon such approval by Lessee and Itel Rail's determination that the Car conforms to the specifications ordered by Itel Rail and to all applicable governmental regulatory specifications, and provided this Agreement has not been terminated, Itel Rail will accept delivery thereof at the manufacturer's facility and shall notify Lessee in writing of such acceptance. Each of the Cars shall be deemed delivered to Lessee upon acceptance by Itel Rail. The Cars shall be moved to Lessee's railroad line at no cost to Lessee as soon after acceptance of delivery by Itel Rail as is consistent with mutual convenience and economy. Due to the nature of railroad operations in the United States, Itel Rail can neither control nor determine when the Cars leased hereunder will actually be available to Lessee for its use on its railroad tracks. Notwithstanding that Lessee may not have immediate physical possession of the Cars leased hereunder, Lessee agrees to pay to Itel Rail the rent set forth in this Agreement. To move the Cars to

Lessee's railroad line and insure optimal use of the Cars after the first loading of freight for each Car on the railroad line of Lessee, Itel Rail agrees to assist Lessee in monitoring Car movements and, when deemed necessary by Lessee and Itel Rail, to issue movement orders with respect to such Cars to other railroad lines in accordance with ICC and AAR interchange agreements and rules. The term "Initial Loading" of each Car for the purposes hereof is defined as the earlier of (i) the first loading of freight of each Car on the railroad line of Lessee or (ii) the twenty-first (21st) day after acceptance of delivery of each Car at the manufacturer's facility by Itel Rail.

B. Lessee agrees that so long as it shall have on lease any Cars, it shall not lease freight cars from any other party until it shall have received all of the Cars on the Schedule or Schedules attached hereto. Once the Cars have been delivered to Lessee, it shall then not lease freight cars similar to the type leased hereunder from any other party until it shall have given Itel Rail at least thirty-five (35) days prior written notice of its intention to lease such freight cars. Lessee shall give preference to Itel Rail and shall load the Cars leased from Itel Rail prior to loading substantially similar freight cars leased from other parties or purchased by Lessee subsequent to the date of this Agreement or interchanged with railroads; provided, however, that this shall in no event prevent or prohibit Lessee from fulfilling its obligations to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks.

C. Additional Cars shall be leased from Itel Rail by Lessee only upon the mutual agreement of the parties hereto. Upon such agreement, such additional Cars shall be identified in Schedules to this Agreement and shall benefit from and be subject to this Agreement upon execution of the Schedules by Itel Rail and Lessee. Notwithstanding the execution of any Schedules, including Schedules for additional Cars, the delivery of any Car to Lessee shall be subject to manufacturers' delivery schedules, financing satisfactory to Itel Rail and the mutual acknowledgment of the parties that the addition of such Cars is not likely to reduce Utilization (as defined in Section 6) of all Cars on lease to Lessee to less than 87.5 per cent in any calendar quarter. If, due to the factors listed in the preceding sentence, fewer than all of the Cars listed on a Schedule shall be delivered to Lessee, the lease term shall be deemed to have commenced on the date the final Car of the most recent group of Cars was delivered to Lessee.

#### 4. Railroad Markings and Record Keeping

A. Itel Rail and Lessee agree that on or before delivery of any Cars to Lessee, said Cars will be lettered with the railroad markings of Lessee and may also be marked with the name and/or other insignia used by Lessee. Such name and/or insignia shall comply with all applicable regulations.

B. At no cost to Lessee, Itel Rail shall during the term of this Agreement prepare for Lessee's signature and filing all documents relating to the registration, maintenance and record keeping functions involving the Cars. Such documents shall include but are not limited to the following: (i) appropriate AAR documents including an application for relief from AAR Car Service Rules 1 and 2; (ii) registration in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; and (iii) such reports as may be required from time to time by the ICC and/or other regulatory agencies.

C. Each Car leased hereunder shall be registered at no cost to Lessee in the Official Railway Equipment Register and the Universal Machine Language Equipment Register. Itel Rail shall, on behalf of Lessee, perform all record keeping functions related to the use of the Cars by Lessee and other railroads in accordance with AAR railroad interchange agreements and rules, such as car hire reconciliation. Correspondence from railroads using such Cars shall be addressed to Lessee at such address as Itel Rail shall select.

D. All record keeping performed by Itel Rail hereunder and all record of payments, charges and correspondence related to the Cars shall be separately recorded and maintained by Itel Rail in a form suitable for reasonable inspection by Lessee from time to time during regular Itel Rail business hours. Lessee shall supply Itel Rail with such reports, including daily telephone reports of the number of Cars on Lessee's tracks, regarding the use of the Cars by Lessee on its railroad line as Itel Rail may reasonably request.

#### 5. Maintenance, Taxes and Insurance

A. Except as otherwise provided herein, Itel Rail will pay all costs, expenses, fees and charges incurred in connection with the use and operation of each of the Cars during its lease term and any extension thereof, including but not limited to repairs, maintenance and servicing, unless the same was occasioned by the fault of Lessee. Lessee shall inspect all Cars interchanged to it to insure that such Cars are in good working order and condition and shall be liable to Itel Rail for any repairs required for damage not noted at the time of interchange.

B. Except as provided above, Itel Rail shall make or cause to be made such inspections of, and maintenance and repairs to, the Cars as may be required. Upon request of Itel Rail, Lessee shall perform any necessary maintenance and repairs to Cars on Lessee's railroad tracks as may be reasonably requested by Itel Rail. Itel Rail shall also make, at its expense, all alterations, modifications or replacement of parts as shall be necessary to maintain the Cars in good operating condition throughout the lease term of such Cars. Lessee may make running repairs to facilitate continued immediate use of a Car, but shall not otherwise make any repairs, alterations, improvements or additions to the Cars without Itel Rail's prior written consent. If Lessee makes an alteration, improvement or addition to any Car without Itel Rail's prior written consent, Lessee shall be liable to Itel Rail for any revenues lost due to such alteration. Title to any such alteration, improvement or addition shall be and remain with Itel Rail.

C. Lessee will at all times while this Agreement is in effect be responsible for the Cars while on Lessee's railroad tracks in the same manner that Lessee is responsible under Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Service Rules—Freight for freight cars not owned by Lessee on Lessee's railroad tracks. Lessee shall protect against the consequences of an event of loss involving the Cars while on Lessee's railroad tracks by obtaining insurance.\* Lessee shall also maintain bodily injury and property damage liability insurance. Lessee shall furnish Itel Rail concurrently with the execution hereof and thereafter at intervals of not more than 12 calendar months with certificates of insurance with respect to the insurance required as aforesaid signed by an insurance company. All insurance shall be taken out in the name of Lessee and Itel Rail (or its assignee) as their interests may appear.

D. Itel Rail agrees to reimburse Lessee for all taxes, assessments and other governmental charges of whatsoever kind or character paid by Lessee relating to each Car and on the lease, delivery or operation thereof which may remain unpaid as of the date of delivery of such Car to Lessee or which may be accrued, levied, assessed or imposed during the lease term, except taxes on income imposed on Lessee and sales or use taxes imposed on the mileage charges and/or car hire revenues. Itel Rail shall forward to Lessee all sales and use tax payments received by it on behalf of Lessee. Itel Rail and Lessee will comply with all state and local laws requiring the filing of ad valorem tax returns on the Cars. Itel Rail shall review all applicable tax returns prior to filing.

\* or by providing evidence of self insurance satisfactory to ITEL Corporation (Rail Division).

## **6. Lease Rental**

**A. Lessee agrees to pay the following rent to Itel Rail for the use of the Cars:**

(i) Itel Rail shall receive all payments made to Lessee by other railroad companies for their use or handling of the Cars, including but not limited to mileage charges, straight car hire payments and incentive car hire payments (all of which payments made to Lessee are herein-after collectively referred to as "Payments") if the Utilization (as defined below) of all of the Cars delivered to Lessee on an aggregate basis for each calendar year shall be equal to or less than 89 per cent. For the purpose of this Agreement, Utilization of the Cars shall be determined by a fraction, the numerator of which is the aggregate number of days in each calendar year that car hire payments are earned by Lessee on the Cars, commencing from the Initial Loading, and the denominator of which is the aggregate number of days in each calendar year that the Cars are on lease to Lessee, commencing from the Initial Loading. In addition, Itel Rail will receive, as additional rental, all monies earned by the Cars prior to their Initial Loading.

(ii) In the event Utilization in any calendar year exceeds 89 per cent and is 98 per cent or less, Itel Rail shall receive an amount equal to the Itel Rail Base Rental. For the purpose hereof, Itel Rail Base Rental shall be an amount equal to the total Payments for the calendar year multiplied by a fraction, the numerator of which is 89 per cent and the denominator of which is the Utilization for such calendar year. In the event Utilization exceeds 98 per cent in any calendar year, Itel Rail shall receive an amount equal to the Itel Rail Base Rental plus 50 per cent of the sum of (the total Payments earned in such calendar year less an amount equal to the total Payments for such calendar year multiplied by a fraction, the numerator of which is 98 per cent of the total Payments for such calendar year and the denominator of which is the Utilization for such calendar year). In addition, there shall be included in total Payments an amount, to the extent received by Lessee, equal to the Mileage Rental. For the purposes hereof, the Mileage Rental shall be an amount equal to the current applicable charge per line-haul mile specified in the Code of Car Hire Rules and Interpretations—Freight ("Mileage Rate"), multiplied by the number of days in the applicable calendar year, multiplied by the number of Cars then subject to the Agreement multiplied by 55 miles per day. Further, Itel Rail shall receive, as additional rental, an amount equal to 50 per cent of the sum of (the Mileage Rate multiplied by the number of miles traveled in such calendar year by all of the Cars then subject to the Agreement less an amount equal to the Mileage Rate multiplied by the number of days in the applicable calendar year, multiplied by the number of Cars then subject to the Agreement, multiplied by 75 miles per day).

(iii) If Itel Rail pays other railroads to move Cars in accordance with Section 3A, except for any expenses incurred to deliver such Cars to Lessee's railroad line, Lessee shall reimburse Itel Rail for such expenses only from and out of the monies received by Lessee pursuant to subsection 6A(ii).

(iv) The rental charges payable to Itel Rail by Lessee shall be paid from the Payments received by Lessee in the following order until Itel Rail receives the amounts due it pursuant to this section: (1) incentive car hire payments; (2) straight car hire payments; (3) mileage charges and (4) other.

(v) In the event damage beyond repair or destruction of a Car has been reported in accordance with Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Hire Rules—Freight and the appropriate amount due as a result thereof is received by Itel Rail, said damaged or destroyed Car will be removed from the coverage of this Agreement as of the date that payment of car hire payments ceased.

B. The calculations required above shall be made within five months after the end of each calendar year. However, to enable Itel Rail to meet its financial commitments, Itel Rail shall, prior to making such calculations, retain the payments received by it on behalf of Lessee. Further, since the parties desire to determine on a quarterly basis the approximate amount of the rental charges due Itel Rail, Itel Rail shall within three months after the end of each calendar quarter, calculate on a quarterly basis rather than a yearly basis the amount due it pursuant to this section. Any amounts payable pursuant to the preceding sentence shall be paid promptly following such calculation, provided, however, that following the yearly calculation, any amount paid to either party in excess of the amounts required by the yearly calculation shall be promptly refunded to the appropriate party.

C. If at any time during a calendar quarter, the number of days that the Cars have not earned car hire payments is such as to make it mathematically certain that the Utilization in such calendar quarter cannot be equal to or greater than 87.5 per cent. Itel Rail may, at its option and upon not less than 10 days prior written notice to Lessee, terminate this Agreement as to such Cars as Itel Rail shall determine.

D. Itel Rail may, at its option, terminate this Agreement if the ICC shall, at any time, (1) issue an order reducing incentive car hire for Cars on an annual basis to three months or less without a corresponding increase in straight car hire or other monies available to both Itel Rail and Lessee at least equal in amount to such reduction, (2) determine that Lessee may not apply its incentive car hire receipts in payment of the rental charges set forth in this section or (3) require that Lessee spend funds not earned by the Cars in order for Lessee to continue to meet its obligations set forth in this section.

E. Subsequent to the Initial Loading, if any Car remains on Lessee's railroad tracks for more than seven consecutive days, Itel Rail may, at its option and upon not less than 24 hours prior written notice, terminate this Agreement as to such Car and withdraw such Car from Lessee's railroad tracks. If any such Car remains on Lessee's railroad tracks more than seven consecutive days because Lessee has not given preference to the Cars as specified in Section 3B, Lessee shall be liable for and remit to Itel Rail an amount equal to the Payments Lessee would have earned if such Cars were in the physical possession and use of another railroad for the entire period.

## 7. Possession and Use

A. So long as Lessee shall not be in default under this Agreement, Lessee shall be entitled to the possession, use and quiet enjoyment of the Cars in accordance with the terms of this Agreement and in the manner and to the extent Cars are customarily used in the railroad freight business, provided that Lessee retain on its railroad tracks no more Cars than are necessary to fulfill its immediate requirements to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks. However, Lessee's rights shall be subject and subordinate to the rights of any owner or secured party under any financing agreement entered into by Itel Rail in connection with the acquisition of Cars, i.e., upon notice to Lessee from any such secured party or owner that an event of default has occurred and is continuing under such financing agreement, such party may require that all rent shall be made directly to such party and/or that the Cars be returned to such party. Lessee agrees that to the extent it has physical possession and can control use of the Cars, the Cars will at all times be used and operated under and in compliance with the laws of the jurisdiction in which the same may be located and in compliance with all lawful acts, rules and regulations and orders of any governmental bodies or officers having power to regulate or supervise the use of such property, except that either Itel Rail or Lessee may in good faith and by appropriate proceedings contest the application of any such rule, regulation or order in any reasonable manner at the expense of the contesting party.

B. Lessee will not directly or indirectly create, incur, assume, or suffer to exist any mortgage, pledge, lien, charge, encumbrance, or other security interest or claim on or with respect to the Cars or any interest therein or in this Agreement or Schedule thereto. Lessee will promptly, at its expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrances, security interest, or claim if the same shall arise at any time.

## **8. Default**

A. The occurrence of any of the following events shall be an event of default:

(i) The nonpayment by Lessee of any sum required herein to be paid by Lessee within ten days after the date any such payment is due.

(ii) The breach by Lessee of any other term, covenant, or condition of this Agreement, which is not cured within ten days thereafter.

(iii) Any act of insolvency by Lessee, or the filing by Lessee of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against Lessee that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of Lessee, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of said filing or appointment.

(v) The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency.

(vi) Any action by Lessee to discontinue rail service on all or a portion of its tracks or abandon any of its rail properties pursuant to applicable provisions of the Interstate Commerce Act or the laws of any state.

B. Upon the occurrence of any event of default, Itel Rail may, at its option, terminate this Agreement (which termination shall not release Lessee from any obligation to pay to Itel Rail any and all rent or other sums that may then be due or accrued to such date or from the obligation to perform any duty or discharge any other liability occurring prior thereto) and may

(i) Proceed by any lawful means to enforce performance by Lessee of such obligations or to recover damages for a breach thereof (and Lessee agrees to bear Itel Rail's costs and expenses, including reasonable attorneys' fees, in securing such enforcement), or

(ii) By notice in writing to Lessee, terminate Lessee's right of possession and use of the Cars, whereupon all right and interest of Lessee in the Cars shall terminate, and thereupon Itel Rail may enter upon any premises where the Cars may be located and take possession of them and henceforth hold, possess and enjoy the same free from any right of Lessee.

## **9. Termination**

Upon the termination of this Agreement as to any Cars, Lessee will surrender possession of such Cars to Itel Rail by delivering the same to Itel Rail. A Car shall be no longer subject to this Agreement upon the removal of Lessee's railroad markings from the Car and the placing thereon of such markings as may be designated by Itel Rail, either, at the option of Itel Rail, (1) by Lessee upon return of such Cars to Lessee's railroad line or (2) by another railroad line which has physical possession of the Car at the time of or subsequent to termination of the lease term as to such Car. If such Cars are not on the railroad line of Lessee upon termination, any cost of assembling, delivering, storing, and transporting such Cars to Lessee's railroad line or the railroad line of a subsequent lessee shall be borne by Itel Rail. If such Cars are on the railroad line of Lessee upon such expiration or termination or are subsequently returned to Lessee's railroad line, Lessee shall at its own expense within five working days remove Lessee's railroad markings from the Cars and place thereon such markings as may be designated by Itel Rail. After the removal and replacement



of markings, Lessee shall use its best efforts to load such Cars with freight and deliver such Cars to a connecting carrier for shipment. Lessee shall provide up to sixty (60) days free storage on its railroad tracks for Itel Rail or the subsequent lessee of any terminated Car. If any Car is terminated pursuant to subsections 6C or 6E or section 8 prior to the end of its lease term, Lessee shall be liable to Itel Rail for all costs and expenses incurred by Itel Rail to place thereon the markings of Itel Rail's subsequent lessee.

#### **10. Indemnities**

Itel Rail will defend, indemnify and hold Lessee harmless from and against (1) any and all loss or damage of or to the Cars, usual wear and tear excepted, unless occurring while Lessee has physical possession of Cars and (2) any claim, cause of action, damage, liability, cost or expense which may be asserted against Lessee with respect to the Cars (other than loss or physical damage to the Cars as provided in (1) above) unless occurring through the fault of Lessee, including without limitation the construction, purchase and delivery of the Cars to Lessee's railroad line, ownership, leasing or return of the Cars, or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects, if any, are latent or are discoverable by Itel Rail or Lessee).

#### **11. Representations, Warranties and Covenants**

Lessee represents, warrants and covenants that:

(i) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated and has the corporate power, authority and is duly qualified and authorized to do business wherever necessary, to carry out its present business and operations and to own or hold under lease its properties and to perform its obligations under this Agreement.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law or regulation applicable to Lessee, or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Lessee or on the Cars pursuant to any instrument to which Lessee is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against Lessee before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of Lessee.

(iv) There is no fact which Lessee has not disclosed to Itel Rail in writing, nor is Lessee a party to any agreement or instrument or subject to any charter or other corporate restriction which, so far as the Lessee can now reasonably foresee, will individually or in the aggregate materially adversely affect the business, condition or any material portion of the properties of the Lessee or the ability of the Lessee to perform its obligations under this Agreement.

(v) Lessee has not during the years 1964-1968 built, leased, purchased or nonequity leased new boxcars or rebuilt any boxcars.

#### **12. Inspection**

Itel Rail shall at any time during normal business hours have the right to enter the premises where the Cars may be located for the purpose of inspecting and examining the Cars to insure Lessee's compliance with its obligations hereunder. Lessee shall immediately notify Itel Rail of any accident connected with the malfunctioning or operation of the Cars, including in such report the time, place and nature of the accident and the damage caused, the names and addresses of any persons injured and of witnesses, and other information pertinent to Lessee's investigation of the accident. Lessee shall

also notify Itel Rail in writing within five (5) days after any attachment, tax lien or other judicial process shall attach to any Car. Lessee shall furnish to Itel Rail promptly upon its becoming available, a copy of its annual report submitted to the ICC and, when requested, copies of any other income or balance sheet statements required to be submitted to the ICC.

### 13. Miscellaneous

A. This Agreement and the Schedules contemplated hereby shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that Lessee may not without the prior written consent of Itel Rail assign this Agreement or any of its rights hereunder or sublease the Cars to any party, and any purported assignment or sublease in violation hereof shall be void.

B. Both parties agree to execute the documents contemplated by this transaction and such other documents as may be required in furtherance of this Agreement and in furtherance of any financing agreement entered into by Itel Rail in connection with the acquisition of the Cars in order to confirm the financing party's interest in and to the Cars, this Agreement and Schedules hereto and to confirm the subordination provisions contained in Section 7.

C. It is expressly understood and agreed by the parties hereto that this Agreement constitutes a lease of the Cars only and no joint venture or partnership is being created. Notwithstanding the calculation of rental payments, nothing herein shall be construed as conveying to Lessee any right, title or interest in the Cars except as a lessee only.

D. No failure or delay by Itel Rail shall constitute a waiver or otherwise affect or impair any right, power or remedy available to Itel Rail nor shall any waiver or indulgence by Itel Rail or any partial or single exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

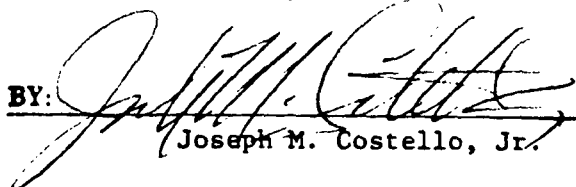
E. This Agreement shall be governed by and construed according to the laws of the State of California.

F. All notices hereunder shall be in writing and shall be deemed given when delivered personally or when deposited in the United States mail, postage prepaid, certified or registered, addressed to the president of the other party at the address set forth above.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ITEL CORPORATION, RAIL DIVISION

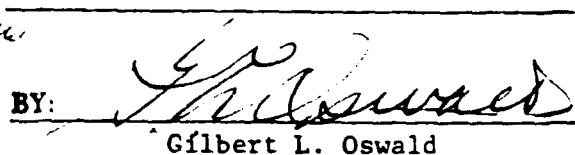
BY:

  
Joseph M. Costello, Jr.

TITLE: President

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

  
Gilbert L. Oswald

TITLE: President

DATE:

August 3, 1978

DATE:

July 18, 1978

Rider No. ...1... to the Lease Agreement made as of July 10..., 1978, between Itel Corporation, Rail Division and The Arcata and Mad River Rail Road Company.....

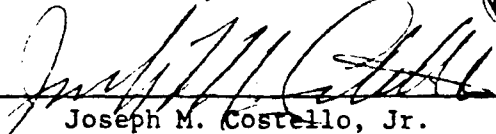
A New Section 1C is added as follows:

"Itel Rail and Lessee agree that, as between themselves, Lessee shall be entitled to claim the benefits of any available Investment Tax Credit for Federal income tax purposes in connection with the acquisition of the Cars bearing the identifying numbers ...AMR 1000-1199..... set forth on Equipment Schedule Nos. 1&2... to the Agreement. Such Cars shall be new equipment when delivered to Lessee hereunder and Itel Rail agrees to execute such documents as may be required to permit Lessee to claim any Investment Tax Credits relating to such Cars."

ITEL CORPORATION, RAIL DIVISION

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

  
Joseph M. Costello, Jr.

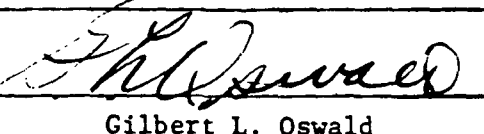
TITLE:

President

DATE:

August 3, 1978

BY:

  
Gilbert L. Oswald

TITLE:

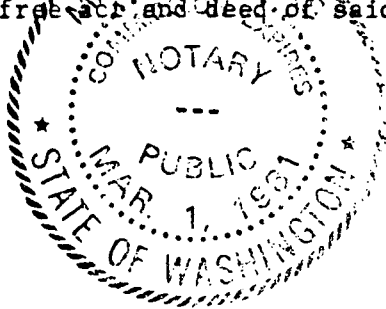
President

DATE:

July 18, 1978

STATE OF *Washington* )  
COUNTY OF *King* )

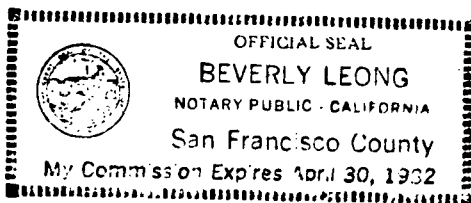
On this *18<sup>th</sup>* day of *July*, 1978, before me personally appeared ~~Gilbert G.~~  
L. Oswald to me personally known, who being by me duly sworn says that such  
person is President of The Arcata and Mad River Rail Road Company that the  
foregoing Lease Agreement, Equipment Schedule Nos. 1 & 2 and Rider No. 1  
were signed on behalf of said corporation by authority of its board of direc-  
tors, and such person acknowledged that the execution of the foregoing instru-  
ment was the free act and deed of said corporation.



*Mary D. Banks*  
Notary Public

STATE OF CALIFORNIA )  
COUNTY OF SAN FRANCISCO )

On this *15<sup>th</sup>* day of *August*, 1978, before me personally appeared Joseph M.  
Costello, Jr. to me personally known, who being by me duly sworn says that such  
person is President of ITEL Corporation, Rail Division, that the foregoing Lease  
Agreement, Equipment Schedule Nos. 1 & 2 and Rider No. 1 were signed on behalf  
of said corporation by authority of its board of directors, and such person ac-  
knowledged that the execution of the foregoing instrument was the free act and  
deed of such corporation.



*Beverly Leong*  
Notary Public

## EQUIPMENT SCHEDULE No. .... 1 .....

Itel Corporation, Rail Division hereby leases the following Cars to The Arcata and Mad River Rail Road Company subject to the terms and conditions of that certain Lease Agreement dated as of July 10..., 1978..

A.A.R. Mech. Desig.	Description	Numbers	Length	Dimensions		Doors Width	No. of Cars
				Inside Width	Height		
XM	70 ton, Plate C, nailable steel floor, end of car cushioning	AMR 1000- 1099	50'6"	9'6" <i>WHL</i> <i>GRS</i>	11'0 1/2" <i>ME</i> <del>10'7 1/2"</del>	16' Double 8' offset sliding	100

ITEL CORPORATION, RAIL DIVISION

BY:

Joseph M. Costello, Jr.

TITLE:

President

DATE:

August 3, 1978

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

Gilbert L. Oswald

TITLE:

President

DATE:

July 18, 1978

## EQUIPMENT SCHEDULE No. 2

Itel Corporation, Rail Division hereby leases the following Cars to The Arcata and Mad River Rail Road Company subject to the terms and conditions of that certain Lease Agreement dated as of July 10, 1978.

A.A.R. Mech. Desig.	Description	Numbers	Dimensions			Doors Width	No. of Cars
			Length	Inside Width	Height		
XM	70 ton, Plate C, nailable steel floor, end of car cushioning	AMR 1100- 1199	50'6"	9'6" <i>see</i>	11'0 1/2" <i>see</i>	16' Double 8' offset sliding	100

ITEL CORPORATION, RAIL DIVISION

BY:

Joseph M. Costello, Jr.

TITLE: President

DATE:

August 3, 1978

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

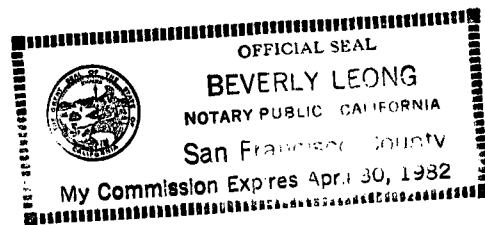
Gilbert L. Oswald

TITLE: President

DATE:

July 18, 1978

I, Beverly Leong being a  
notary public, do hereby certify that I have  
compared this copy with the original document  
and that it is a true and correct copy in all  
respects.



**ITEL  
CORPORATION  
RAIL DIVISION**

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-10034  
RECORDATION NO. Filed 1425

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INTERSTATE COMMERCE COMMISSION

**LEASE AGREEMENT**

THIS LEASE AGREEMENT, made as of this 10th day of July, 1978, between ITEL CORPORATION, RAIL DIVISION, a Delaware corporation, Two Embarcadero Center, San Francisco, California 94111 ("IteI Rail"), as Lessor, and The Arcata and Mad River Rail Road Company, a California corporation ("Lessee"), as Lessee.

**1. Scope of Agreement**

A. IteI Rail agrees to lease to Lessee, and Lessee agrees to lease from IteI Rail, freight cars as set forth in any lease schedules executed by the parties concurrently herewith or hereafter and made a part of this Agreement. The word "Schedule" as used herein includes the Schedule or Schedules executed herewith and any additional Schedules and amendments thereto, each of which when signed by both parties shall be a part of this Agreement. The scheduled items of equipment are hereinafter called collectively the "Cars."

B. It is the intent of the parties to this Agreement that IteI Rail shall at all times be and remain the lessor of all Cars. Lessee agrees that it will at no time take any action or file any document which is inconsistent with the foregoing intent and that it will take such action and execute such documents as may be necessary to accomplish this intent.

**2. Term**

A. This Agreement shall remain in full force until it shall have been terminated as to all of the Cars as provided herein. The term of lease with respect to all of the Cars described on each Schedule shall be for fifteen (15) years (the "Initial Lease Term") commencing upon the date when all Cars on such Schedule have been delivered as set forth in Section 3A hereof.

B. If this Agreement has not been earlier terminated and no default has occurred and is continuing, it shall automatically be extended for not more than five consecutive periods of twelve months each (the "Extended Lease Term") with respect to all of the Cars described on each Schedule, provided, however, that IteI Rail or Lessee may terminate this Agreement on or after the Initial Lease Term as to all, but not fewer than all, of the Cars on any such Schedule by written notice delivered to the other not less than twelve months prior to the end of the Initial Lease Term or any Extended Lease Term.

**3. Supply Provisions**

A. IteI Rail will inspect each of the Cars tendered by the manufacturer for delivery to Lessee. Prior to such inspection, however, Lessee shall confirm in writing to IteI Rail that the sample Car which will be made available for Lessee's inspection prior to the commencement of deliveries conforms to the specifications of the equipment agreed to by Lessee. Upon such approval by Lessee and IteI Rail's determination that the Car conforms to the specifications ordered by IteI Rail and to all applicable governmental regulatory specifications, and provided this Agreement has not been terminated, IteI Rail will accept delivery thereof at the manufacturer's facility and shall notify Lessee in writing of such acceptance. Each of the Cars shall be deemed delivered to Lessee upon acceptance by IteI Rail. The Cars shall be moved to Lessee's railroad line at no cost to Lessee as soon after acceptance of delivery by IteI Rail as is consistent with mutual convenience and economy. Due to the nature of railroad operations in the United States, IteI Rail can neither control nor determine when the Cars leased hereunder will actually be available to Lessee for its use on its railroad tracks. Notwithstanding that Lessee may not have immediate physical possession of the Cars leased hereunder, Lessee agrees to pay to IteI Rail the rent set forth in this Agreement. To move the Cars to



Lessee's railroad line and insure optimal use of the Cars after the first loading of freight for each Car on the railroad line of Lessee, Itel Rail agrees to assist Lessee in monitoring Car movements and, when deemed necessary by Lessee and Itel Rail, to issue movement orders with respect to such Cars to other railroad lines in accordance with ICC and AAR interchange agreements and rules. The term "Initial Loading" of each Car for the purposes hereof is defined as the earlier of (i) the first loading of freight of each Car on the railroad line of Lessee or (ii) the twenty-first (21st) day after acceptance of delivery of each Car at the manufacturer's facility by Itel Rail.

B. Lessee agrees that so long as it shall have on lease any Cars, it shall not lease freight cars from any other party until it shall have received all of the Cars on the Schedule or Schedules attached hereto. Once the Cars have been delivered to Lessee, it shall then not lease freight cars similar to the type leased hereunder from any other party until it shall have given Itel Rail at least thirty-five (35) days prior written notice of its intention to lease such freight cars. Lessee shall give preference to Itel Rail and shall load the Cars leased from Itel Rail prior to loading substantially similar freight cars leased from other parties or purchased by Lessee subsequent to the date of this Agreement or interchanged with railroads; provided, however, that this shall in no event prevent or prohibit Lessee from fulfilling its obligations to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks.

C. Additional Cars shall be leased from Itel Rail by Lessee only upon the mutual agreement of the parties hereto. Upon such agreement, such additional Cars shall be identified in Schedules to this Agreement and shall benefit from and be subject to this Agreement upon execution of the Schedules by Itel Rail and Lessee. Notwithstanding the execution of any Schedules, including Schedules for additional Cars, the delivery of any Car to Lessee shall be subject to manufacturers' delivery schedules, financing satisfactory to Itel Rail and the mutual acknowledgment of the parties that the addition of such Cars is not likely to reduce Utilization (as defined in Section 6) of all Cars on lease to Lessee to less than 87.5 per cent in any calendar quarter. If, due to the factors listed in the preceding sentence, fewer than all of the Cars listed on a Schedule shall be delivered to Lessee, the lease term shall be deemed to have commenced on the date the final Car of the most recent group of Cars was delivered to Lessee.

#### 4. Railroad Markings and Record Keeping

A. Itel Rail and Lessee agree that on or before delivery of any Cars to Lessee, said Cars will be lettered with the railroad markings of Lessee and may also be marked with the name and/or other insignia used by Lessee. Such name and/or insignia shall comply with all applicable regulations.

B. At no cost to Lessee, Itel Rail shall during the term of this Agreement prepare for Lessee's signature and filing all documents relating to the registration, maintenance and record keeping functions involving the Cars. Such documents shall include but are not limited to the following: (i) appropriate AAR documents including an application for relief from AAR Car Service Rules 1 and 2; (ii) registration in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; and (iii) such reports as may be required from time to time by the ICC and/or other regulatory agencies.

C. Each Car leased hereunder shall be registered at no cost to Lessee in the Official Railway Equipment Register and the Universal Machine Language Equipment Register. Itel Rail shall, on behalf of Lessee, perform all record keeping functions related to the use of the Cars by Lessee and other railroads in accordance with AAR railroad interchange agreements and rules, such as car hire reconciliation. Correspondence from railroads using such Cars shall be addressed to Lessee at such address as Itel Rail shall select.

D. All record keeping performed by Itel Rail hereunder and all record of payments, charges and correspondence related to the Cars shall be separately recorded and maintained by Itel Rail in a form suitable for reasonable inspection by Lessee from time to time during regular Itel Rail business hours. Lessee shall supply Itel Rail with such reports, including daily telephone reports of the number of Cars on Lessee's tracks, regarding the use of the Cars by Lessee on its railroad line as Itel Rail may reasonably request.

#### 5. Maintenance, Taxes and Insurance

A. Except as otherwise provided herein, Itel Rail will pay all costs, expenses, fees and charges incurred in connection with the use and operation of each of the Cars during its lease term and any extension thereof, including but not limited to repairs, maintenance and servicing, unless the same was occasioned by the fault of Lessee. Lessee shall inspect all Cars interchanged to it to insure that such Cars are in good working order and condition and shall be liable to Itel Rail for any repairs required for damage not noted at the time of interchange.

B. Except as provided above, Itel Rail shall make or cause to be made such inspections of, and maintenance and repairs to, the Cars as may be required. Upon request of Itel Rail, Lessee shall perform any necessary maintenance and repairs to Cars on Lessee's railroad tracks as may be reasonably requested by Itel Rail. Itel Rail shall also make, at its expense, all alterations, modifications or replacement of parts as shall be necessary to maintain the Cars in good operating condition throughout the lease term of such Cars. Lessee may make running repairs to facilitate continued immediate use of a Car, but shall not otherwise make any repairs, alterations, improvements or additions to the Cars without Itel Rail's prior written consent. If Lessee makes an alteration, improvement or addition to any Car without Itel Rail's prior written consent, Lessee shall be liable to Itel Rail for any revenues lost due to such alteration. Title to any such alteration, improvement or addition shall be and remain with Itel Rail.

C. Lessee will at all times while this Agreement is in effect be responsible for the Cars while on Lessee's railroad tracks in the same manner that Lessee is responsible under Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Service Rules—Freight for freight cars not owned by Lessee on Lessee's railroad tracks. Lessee shall protect against the consequences of an event of loss involving the Cars while on Lessee's railroad tracks by obtaining insurance.\* Lessee shall also maintain bodily injury and property damage liability insurance. Lessee shall furnish Itel Rail concurrently with the execution hereof and thereafter at intervals of not more than 12 calendar months with certificates of insurance with respect to the insurance required as aforesaid signed by an insurance company. All insurance shall be taken out in the name of Lessee and Itel Rail (or its assignee) as their interests may appear.

D. Itel Rail agrees to reimburse Lessee for all taxes, assessments and other governmental charges of whatsoever kind or character paid by Lessee relating to each Car and on the lease, delivery or operation thereof which may remain unpaid as of the date of delivery of such Car to Lessee or which may be accrued, levied, assessed or imposed during the lease term, except taxes on income imposed on Lessee and sales or use taxes imposed on the mileage charges and/or car hire revenues. Itel Rail shall forward to Lessee all sales and use tax payments received by it on behalf of Lessee. Itel Rail and Lessee will comply with all state and local laws requiring the filing of ad valorem tax returns on the Cars. Itel Rail shall review all applicable tax returns prior to filing.

\* or by providing evidence of self insurance satisfactory to ITEL Corporation (Rail Division).

## 6. Lease Rental

A. Lessee agrees to pay the following rent to Itel Rail for the use of the Cars:

(i) Itel Rail shall receive all payments made to Lessee by other railroad companies for their use or handling of the Cars, including but not limited to mileage charges, straight car hire payments and incentive car hire payments (all of which payments made to Lessee are hereinafter collectively referred to as "Payments") if the Utilization (as defined below) of all of the Cars delivered to Lessee on an aggregate basis for each calendar year shall be equal to or less than 89 per cent. For the purpose of this Agreement, Utilization of the Cars shall be determined by a fraction, the numerator of which is the aggregate number of days in each calendar year that car hire payments are earned by Lessee on the Cars, commencing from the Initial Loading, and the denominator of which is the aggregate number of days in each calendar year that the Cars are on lease to Lessee, commencing from the Initial Loading. In addition, Itel Rail will receive, as additional rental, all monies earned by the Cars prior to their Initial Loading.

(ii) In the event Utilization in any calendar year exceeds 89 per cent and is 98 per cent or less, Itel Rail shall receive an amount equal to the Itel Rail Base Rental. For the purpose hereof, Itel Rail Base Rental shall be an amount equal to the total Payments for the calendar year multiplied by a fraction, the numerator of which is 89 per cent and the denominator of which is the Utilization for such calendar year. In the event Utilization exceeds 98 per cent in any calendar year, Itel Rail shall receive an amount equal to the Itel Rail Base Rental plus 50 per cent of the sum of (the total Payments earned in such calendar year less an amount equal to the total Payments for such calendar year multiplied by a fraction, the numerator of which is 98 per cent of the total Payments for such calendar year and the denominator of which is the Utilization for such calendar year). In addition, there shall be included in total Payments an amount, to the extent received by Lessee, equal to the Mileage Rental. For the purposes hereof, the Mileage Rental shall be an amount equal to the current applicable charge per line-haul mile specified in the Code of Car Hire Rules and Interpretations—Freight ("Mileage Rate"), multiplied by the number of days in the applicable calendar year, multiplied by the number of Cars then subject to the Agreement multiplied by 55 miles per day. Further, Itel Rail shall receive, as additional rental, an amount equal to 50 per cent of the sum of (the Mileage Rate multiplied by the number of miles traveled in such calendar year by all of the Cars then subject to the Agreement less an amount equal to the Mileage Rate multiplied by the number of days in the applicable calendar year, multiplied by the number of Cars then subject to the Agreement, multiplied by 75 miles per day).

(iii) If Itel Rail pays other railroads to move Cars in accordance with Section 3A, except for any expenses incurred to deliver such Cars to Lessee's railroad line, Lessee shall reimburse Itel Rail for such expenses only from and out of the monies received by Lessee pursuant to subsection 6A(ii).

(iv) The rental charges payable to Itel Rail by Lessee shall be paid from the Payments received by Lessee in the following order until Itel Rail receives the amounts due it pursuant to this section: (1) incentive car hire payments; (2) straight car hire payments; (3) mileage charges and (4) other.

(v) In the event damage beyond repair or destruction of a Car has been reported in accordance with Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Hire Rules—Freight and the appropriate amount due as a result thereof is received by Itel Rail, said damaged or destroyed Car will be removed from the coverage of this Agreement as of the date that payment of car hire payments ceased.

B. The calculations required above shall be made within five months after the end of each calendar year. However, to enable Itel Rail to meet its financial commitments, Itel Rail shall, prior to making such calculations, retain the payments received by it on behalf of Lessee. Further, since the parties desire to determine on a quarterly basis the approximate amount of the rental charges due Itel Rail, Itel Rail shall within three months after the end of each calendar quarter, calculate on a quarterly basis rather than a yearly basis the amount due it pursuant to this section. Any amounts payable pursuant to the preceding sentence shall be paid promptly following such calculation, provided, however, that following the yearly calculation, any amount paid to either party in excess of the amounts required by the yearly calculation shall be promptly refunded to the appropriate party.

C. If at any time during a calendar quarter, the number of days that the Cars have not earned car hire payments is such as to make it mathematically certain that the Utilization in such calendar quarter cannot be equal to or greater than 87.5 per cent. Itel Rail may, at its option and upon not less than 10 days prior written notice to Lessee, terminate this Agreement as to such Cars as Itel Rail shall determine.

D. Itel Rail may, at its option, terminate this Agreement if the ICC shall, at any time, (1) issue an order reducing incentive car hire for Cars on an annual basis to three months or less without a corresponding increase in straight car hire or other monies available to both Itel Rail and Lessee at least equal in amount to such reduction, (2) determine that Lessee may not apply its incentive car hire receipts in payment of the rental charges set forth in this section or (3) require that Lessee spend funds not earned by the Cars in order for Lessee to continue to meet its obligations set forth in this section.

E. Subsequent to the Initial Loading, if any Car remains on Lessee's railroad tracks for more than seven consecutive days, Itel Rail may, at its option and upon not less than 24 hours prior written notice, terminate this Agreement as to such Car and withdraw such Car from Lessee's railroad tracks. If any such Car remains on Lessee's railroad tracks more than seven consecutive days because Lessee has not given preference to the Cars as specified in Section 3B, Lessee shall be liable for and remit to Itel Rail an amount equal to the Payments Lessee would have earned if such Cars were in the physical possession and use of another railroad for the entire period.

## 7. Possession and Use

A. So long as Lessee shall not be in default under this Agreement, Lessee shall be entitled to the possession, use and quiet enjoyment of the Cars in accordance with the terms of this Agreement and in the manner and to the extent Cars are customarily used in the railroad freight business, provided that Lessee retain on its railroad tracks no more Cars than are necessary to fulfill its immediate requirements to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks. However, Lessee's rights shall be subject and subordinate to the rights of any owner or secured party under any financing agreement entered into by Itel Rail in connection with the acquisition of Cars, i.e., upon notice to Lessee from any such secured party or owner that an event of default has occurred and is continuing under such financing agreement, such party may require that all rent shall be made directly to such party and/or that the Cars be returned to such party. Lessee agrees that to the extent it has physical possession and can control use of the Cars, the Cars will at all times be used and operated under and in compliance with the laws of the jurisdiction in which the same may be located and in compliance with all lawful acts, rules and regulations and orders of any governmental bodies or officers having power to regulate or supervise the use of such property, except that either Itel Rail or Lessee may in good faith and by appropriate proceedings contest the application of any such rule, regulation or order in any reasonable manner at the expense of the contesting party.

B. Lessee will not directly or indirectly create, incur, assume, or suffer to exist any mortgage, pledge, lien, charge, encumbrance, or other security interest or claim on or with respect to the Cars or any interest therein or in this Agreement or Schedule thereto. Lessee will promptly, at its expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrances, security interest, or claim if the same shall arise at any time.

## **8. Default**

A. The occurrence of any of the following events shall be an event of default:

(i) The nonpayment by Lessee of any sum required herein to be paid by Lessee within ten days after the date any such payment is due.

(ii) The breach by Lessee of any other term, covenant, or condition of this Agreement, which is not cured within ten days thereafter.

(iii) Any act of insolvency by Lessee, or the filing by Lessee of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against Lessee that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of Lessee, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of said filing or appointment.

(v) The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency.

(vi) Any action by Lessee to discontinue rail service on all or a portion of its tracks or abandon any of its rail properties pursuant to applicable provisions of the Interstate Commerce Act or the laws of any state.

B. Upon the occurrence of any event of default, Itel Rail may, at its option, terminate this Agreement (which termination shall not release Lessee from any obligation to pay to Itel Rail any and all rent or other sums that may then be due or accrued to such date or from the obligation to perform any duty or discharge any other liability occurring prior thereto) and may

(i) Proceed by any lawful means to enforce performance by Lessee of such obligations or to recover damages for a breach thereof (and Lessee agrees to bear Itel Rail's costs and expenses, including reasonable attorneys' fees, in securing such enforcement), or

(ii) By notice in writing to Lessee, terminate Lessee's right of possession and use of the Cars, whereupon all right and interest of Lessee in the Cars shall terminate, and thereupon Itel Rail may enter upon any premises where the Cars may be located and take possession of them and henceforth hold, possess and enjoy the same free from any right of Lessee.

## **9. Termination**

Upon the termination of this Agreement as to any Cars, Lessee will surrender possession of such Cars to Itel Rail by delivering the same to Itel Rail. A Car shall be no longer subject to this Agreement upon the removal of Lessee's railroad markings from the Car and the placing thereon of such markings as may be designated by Itel Rail, either, at the option of Itel Rail, (1) by Lessee upon return of such Cars to Lessee's railroad line or (2) by another railroad line which has physical possession of the Car at the time of or subsequent to termination of the lease term as to such Car. If such Cars are not on the railroad line of Lessee upon termination, any cost of assembling, delivering, storing, and transporting such Cars to Lessee's railroad line or the railroad line of a subsequent lessee shall be borne by Itel Rail. If such Cars are on the railroad line of Lessee upon such expiration or termination or are subsequently returned to Lessee's railroad line, Lessee shall at its own expense within five working days remove Lessee's railroad markings from the Cars and place thereon such markings as may be designated by Itel Rail. After the removal and replacement

of markings, Lessee shall use its best efforts to load such Cars with freight and deliver such Cars to a connecting carrier for shipment. Lessee shall provide up to sixty (60) days free storage on its railroad tracks for Itel Rail or the subsequent lessee of any terminated Car. If any Car is terminated pursuant to subsections 6C or 6E or section 8 prior to the end of its lease term, Lessee shall be liable to Itel Rail for all costs and expenses incurred by Itel Rail to place thereon the markings of Itel Rail's subsequent lessee.

#### **10. Indemnities**

Itel Rail will defend, indemnify and hold Lessee harmless from and against (1) any and all loss or damage of or to the Cars, usual wear and tear excepted, unless occurring while Lessee has physical possession of Cars and (2) any claim, cause of action, damage, liability, cost or expense which may be asserted against Lessee with respect to the Cars (other than loss or physical damage to the Cars as provided in (1) above) unless occurring through the fault of Lessee, including without limitation the construction, purchase and delivery of the Cars to Lessee's railroad line, ownership, leasing or return of the Cars, or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects, if any, are latent or are discoverable by Itel Rail or Lessee).

#### **11. Representations, Warranties and Covenants**

Lessee represents, warrants and covenants that:

(i) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated and has the corporate power, authority and is duly qualified and authorized to do business wherever necessary, to carry out its present business and operations and to own or hold under lease its properties and to perform its obligations under this Agreement.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law or regulation applicable to Lessee, or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Lessee or on the Cars pursuant to any instrument to which Lessee is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against Lessee before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of Lessee.

(iv) There is no fact which Lessee has not disclosed to Itel Rail in writing, nor is Lessee a party to any agreement or instrument or subject to any charter or other corporate restriction which, so far as the Lessee can now reasonably foresee, will individually or in the aggregate materially adversely affect the business, condition or any material portion of the properties of the Lessee or the ability of the Lessee to perform its obligations under this Agreement.

(v) Lessee has not during the years 1964-1968 built, leased, purchased or nonequity leased new boxcars or rebuilt any boxcars.

#### **12. Inspection**

Itel Rail shall at any time during normal business hours have the right to enter the premises where the Cars may be located for the purpose of inspecting and examining the Cars to insure Lessee's compliance with its obligations hereunder. Lessee shall immediately notify Itel Rail of any accident connected with the malfunctioning or operation of the Cars, including in such report the time, place and nature of the accident and the damage caused, the names and addresses of any persons injured and of witnesses, and other information pertinent to Lessee's investigation of the accident. Lessee shall

also notify Itel Rail in writing within five (5) days after any attachment, tax lien or other judicial process shall attach to any Car. Lessee shall furnish to Itel Rail promptly upon its becoming available, a copy of its annual report submitted to the ICC and, when requested, copies of any other income or balance sheet statements required to be submitted to the ICC.

### 13. Miscellaneous

A. This Agreement and the Schedules contemplated hereby shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that Lessee may not without the prior written consent of Itel Rail assign this Agreement or any of its rights hereunder or sublease the Cars to any party, and any purported assignment or sublease in violation hereof shall be void.

B. Both parties agree to execute the documents contemplated by this transaction and such other documents as may be required in furtherance of this Agreement and in furtherance of any financing agreement entered into by Itel Rail in connection with the acquisition of the Cars in order to confirm the financing party's interest in and to the Cars, this Agreement and Schedules hereto and to confirm the subordination provisions contained in Section 7.

C. It is expressly understood and agreed by the parties hereto that this Agreement constitutes a lease of the Cars only and no joint venture or partnership is being created. Notwithstanding the calculation of rental payments, nothing herein shall be construed as conveying to Lessee any right, title or interest in the Cars except as a lessee only.

D. No failure or delay by Itel Rail shall constitute a waiver or otherwise affect or impair any right, power or remedy available to Itel Rail nor shall any waiver or indulgence by Itel Rail or any partial or single exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

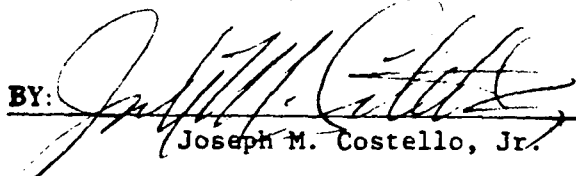
E. This Agreement shall be governed by and construed according to the laws of the State of California.

F. All notices hereunder shall be in writing and shall be deemed given when delivered personally or when deposited in the United States mail, postage prepaid, certified or registered, addressed to the president of the other party at the address set forth above.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ITEL CORPORATION, RAIL DIVISION

BY:

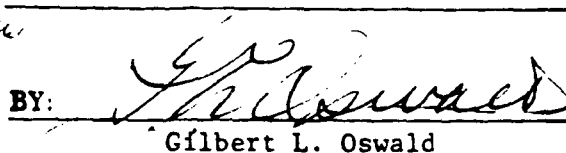
  
Joseph M. Costello, Jr.

TITLE:

President

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

  
Gilbert L. Oswald

TITLE:

President

DATE:

August 3, 1978

DATE:

July 18, 1978

Rider No. 1 to the Lease Agreement made as of July 10, 1978, between Itel Corporation, Rail Division and The Arcata and Mad River Rail Road Company.

A New Section 1C is added as follows:

"Itel Rail and Lessee agree that, as between themselves, Lessee shall be entitled to claim the benefits of any available Investment Tax Credit for Federal income tax purposes in connection with the acquisition of the Cars bearing the identifying numbers AMR 1000-1199 set forth on Equipment Schedule Nos. 1&2 to the Agreement. Such Cars shall be new equipment when delivered to Lessee hereunder and Itel Rail agrees to execute such documents as may be required to permit Lessee to claim any Investment Tax Credits relating to such Cars."

ITEL CORPORATION, RAIL DIVISION

BY: *Joseph M. Costello, Jr.*

Joseph M. Costello, Jr.

TITLE: President

DATE: August 3, 1978

THE ARCATA AND MAD RIVER RAIL ROAD COMPANY

BY: *Gilbert L. Oswald*

Gilbert L. Oswald

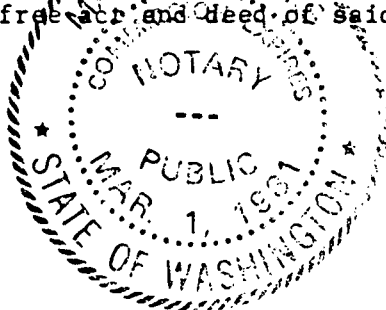
TITLE: President

DATE: July 18, 1978



STATE OF *Washington* )  
 )  
COUNTY OF *King* )

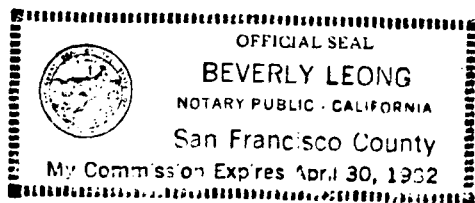
On this *18<sup>th</sup>* day of *July*, 1978, before me personally appeared ~~Gilbert G.~~  
L. Oswald to me personally known, who being by me duly sworn says that such  
person is President of The Arcata and Mad River Rail Road Company that the  
foregoing Lease Agreement, Equipment Schedule Nos. 1 & 2 and Rider No.1  
were signed on behalf of said corporation by authority of its board of direc-  
tors, and such person acknowledged that the execution of the foregoing instru-  
ment was the free act and deed of said corporation.



*Mary D. Banks*  
\_\_\_\_\_  
Notary Public

STATE OF CALIFORNIA )  
 )  
COUNTY OF SAN FRANCISCO )

On this *15<sup>th</sup>* day of *August*, 1978, before me personally appeared Joseph M.  
Costello, Jr. to me personally known, who being by me duly sworn says that such  
person is President of ITEL Corporation, Rail Division, that the foregoing Lease  
Agreement, Equipment Schedule Nos. 1 & 2 and Rider No. 1 were signed on behalf  
of said corporation by authority of its board of directors, and such person ac-  
knowledged that the execution of the foregoing instrument was the free act and  
deed of such corporation.



*Beverly Leong*  
\_\_\_\_\_  
Notary Public

## EQUIPMENT SCHEDULE No. 1

Itel Corporation, Rail Division hereby leases the following Cars to The Arcata and Mad River Rail Road Company subject to the terms and conditions of that certain Lease Agreement dated as of July 10, 1978.

A.A.R. Mech. Desig.	Description	Numbers	Length	Dimensions		Doors Width	No. of Cars
				Inside Width	Height		
XM	70 ton, Plate C, nailable steel floor, end of car cushioning	AMR 1000- 1099	50'6"	9'6" <i>9'6"</i>	10'4" <i>11'0 1/2"</i>	16' Double 8' offset sliding	100

ITEL CORPORATION, RAIL DIVISION

BY:

Joseph M. Costello, Jr.

TITLE:

President

DATE:

August 3, 1978

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

Gilbert L. Oswald

TITLE:

President

DATE:

July 18, 1978

## EQUIPMENT SCHEDULE No. 2

Itel Corporation, Rail Division hereby leases the following Cars to The Arcata and Mad River Rail Road Company subject to the terms and conditions of that certain Lease Agreement dated as of July 10, 1978.

A.A.R. Mech. Design	Description	Numbers	Dimensions			Doors Width	No. of Cars
			Length	Inside Width	Height		
XM	70 ton, Plate C, nailable steel floor, end of car cushioning	AMR 1100- 1199	50'6"	9'6" <i>9'6"</i>	11'0 1/2" <i>11'0 1/2"</i>	16' Double 8' offset sliding	100

ITEL CORPORATION, RAIL DIVISION

BY:

*Joseph M. Costello, Jr.*

TITLE:

President

DATE:

*August 3, 1978*

THE ARCATA AND MAD RIVER RAIL ROAD  
COMPANY

BY:

*Gilbert L. Oswald*

TITLE:

President

DATE:

*July 18, 1978*

I, Beverly Leong being a  
notary public, do hereby certify that I have  
compared this copy with the original document  
and that it is a true and correct copy in all  
respects.

